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United Nations University

Financial report and audited financial statements

for the biennium ended
31 December 2005 and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-first Session
Supplement No. 5 (A/61/5)

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Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Abbreviations

BIOLAC	Programme for Biotechnology in Latin America and the Caribbean
CRIS	Programme on Comparative Regional Integration Studies
EHS	Institute for Environment and Human Security
IAS	Institute of Advanced Studies
ICDF	Innovative Capacity Development Fund
IIST	International Institute for Software Technology
ILI	International Leadership Institute
INRA	Institute for National Resources in Africa
INTECH	Institute for New Technologies
INWEH	International Network on Water, Environment and Health
JAF	Joint Activities Fund
RCF	Revolving Cash Fund
UNU	United Nations University
WIDER	World Institute for Development Economics Research

[9 August 2006]

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31 March 2006

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations University for the biennium 2004-2005, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Kofi A. **Annan**

Mr. Guillermo N. Carague
Chairman
United Nations Board of Auditors
New York

28 July 2006

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations University for the biennium ended 31 December 2005.

(*Signed*) Guillermo **Carague**
Chairman, Philippine Commission on Audit and
Chairman, United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Financial report for the biennium ended 31 December 2005

A. Introduction

1. The General Assembly adopted the Charter of the United Nations University by its resolution 3081 (XXVIII) of 6 December 1973 and decided that the University would have its headquarters in the Tokyo metropolitan area in Japan. Authority for the University's policies, work programmes and budget is vested in a Council of 28 members. The Rector, who normally serves for five years and is eligible for reappointment for one more term of five years, is the chief academic and administrative officer of the University.

2. The funds of the University are kept in a special account established by the Secretary-General of the United Nations. The Charter of the United Nations University provides that capital and recurrent costs of the University shall be met from the voluntary contributions to the University or from income derived therefrom.

3. The University maintains an Endowment Fund, a trust fund and separate operating funds for its 14 research and training centres/programmes and its headquarters. The Endowment Fund accumulates investment income and also receives voluntary contributions. Income from investments in the Endowment Fund is used to support the activities of the University, which are accounted for in the respective operating funds. The trust fund for the UNU Financial Assistance Programme for Students from Developing Countries Studying in Japan is funded by voluntary contributions. The operating funds also receive voluntary contributions directly from Governments as well as from non-governmental sources, United Nations entities, universities and individuals.

B. Financial position of the United Nations University

4. Total income of the Endowment Fund during the biennium 2004-2005 amounted to $32.5 million compared with $38.0 million in the previous biennium. The breakdown is as follows (in thousands of United States dollars):

	2005	*2003*
Voluntary contributions	1 897	1 119
Interest income	30 622	1 631
Miscellaneous income	—	35 247
Total	**32 519**	**37 997**

5. Interest income of the Endowment Fund increased to $30.6 million in the biennium 2004-2005, as compared with $1.6 million in the previous biennium, mainly as a result of a net gain on sale of investments of $14.8 million compared with a net loss of $13.3 million in the previous biennium.

6. Miscellaneous income of the Endowment Fund declined substantially in the current biennium. In accordance with the financial rules, net gains relating to foreign exchange revaluations are included in miscellaneous income, and net losses are included in operating expenses. During the previous biennium, there was a net gain of $35.2 million, which was included in miscellaneous income. In the biennium 2004-2005, there was a net loss of $3.8 million, which is included in operating expenses.

7. Total income for the operating funds amounted to $38.3 million in the current biennium, compared to $33.6 million in the previous biennium. The breakdown is as follows (in thousands of United States dollars):

	2005	*2003*[a]
Voluntary contributions	33 534	26 698
Interest income	1 096	3 333
Income for services rendered	2 843	2 908
Other/miscellaneous income	828	698
Total	**38 301**	**33 637**

[a] Comparative figures have been restated to exclude the trust fund for the financial assistance programme, to conform to the current presentation.

8. As shown in statement I, the total expenditure of the operating funds of the University amounted to $75.0 million for the biennium compared to $63.4 million in the previous biennium as detailed below (in thousands of United States dollars):

Major object of expenditure	*2005*	*2003*[a]
Staff and other personnel costs[b]	33 819	27 531
Travel	1 970	1 904
Contractual services	823	—
Operating expenses	5 191	3 865
Acquisitions[c]	775	818
UNU Headquarters building	5 260	4 589
Research and training networks, and dissemination	27 175	24 710
Total	**75 013**	**63 417**

[a] Comparative figures have been restated to exclude the trust fund for the financial assistance programme, to conform to the current presentation.
[b] Includes costs of programme staff and consultants.
[c] Includes costs of library books and supplies and costs of programme equipment.

9. During the biennium ended 31 December 2005, in accordance with the decision of the UNU Council, an amount of $15.3 million was transferred from the Endowment Fund to the operating funds, broken down as follows: $7.7 million to UNU Centre, $1.6 million to UNU-IIST, $0.4 million to UNU-INRA, $0.1 million to UNU-ILI, $2.0 million to UNU-JAF, $1.0 million to UNU-ICDF and $2.5 million to UNU-RCF. Transfers to the Endowment Fund of $3.9 million were as follows:

$2.7 million from UNU-WIDER, $0.3 million from UNU-INTECH and $0.9 million from UNU-BIOLAC.

10. Statement II shows that total assets amounted to $307.8 million and the total liabilities to $8.3 million. The Endowment Fund had short-term investments of $6.6 million and long-term investments of $256.5 million, the market values of which were $6.6 million and $287.6 million respectively. In addition, the operating funds held investment balances of $13.4 million as at 31 December 2005, which represented the University's share of the United Nations offices away from Headquarters cash pool. Total assets also included $5.3 million representing pledged contributions receivable, the details of which are provided in schedule 2.1.

11. During the current biennium, the fund balance of the Endowment Fund increased by $17.3 million to $278.9 million as at 31 December 2005. The fund balance of the operating fund decreased by $22.7 million to $19.1 million as at 31 December 2005.

Annex

Supplementary information

1. The present annex includes supplementary information that the Secretary-General is required to report.

Double-counting in the financial statements

2. The financial statements of the United Nations University contain elements of double-counting of inter-fund indebtedness and inter-office transactions pending processing totalling $10.2 million and $9.1 million respectively. These amounts have been eliminated from the asset and liability figures shown in statement II.

Write-off of losses of cash and receivables

3. During the biennium 2004-2005, no losses of cash and receivables were reported under financial rule 106.8.

Write-off of losses of property

4. During the biennium 2004-2005, no losses of property were reported under financial rule 106.9.

Ex gratia payments

5. There were no ex gratia payments during the biennium 2004-2005.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations University (UNU) at its headquarters in Tokyo and at seven of its research and training centres and programmes. The Board has also audited the financial statements of UNU for the biennium ended 31 December 2005.

The Board issued an unqualified audit opinion on the financial statements of UNU for the biennium ended 31 December 2005, as reflected in chapter III of the present report.

Implementation of previous recommendations of the Board

The Board reviewed the measures taken by UNU to implement the recommendations made by the Board in its report on the accounts of UNU for the biennium ended 31 December 2003. Of the 25 recommendations contained in that report, 10 (40 per cent) were implemented, 13 (52 per cent) were partially implemented and 2 (8 per cent) were not implemented.

Coordination among oversight bodies

The Board continually coordinates with the other oversight bodies and experts (Office of Internal Oversight Services, the Joint Inspection Unit and consultants) in the planning of its audits in order to avoid duplication of effort and ensure optimal use of audit resources.

Financial overview for the biennium ended 31 December 2005

Total income amounted to $73.4 million, while total expenditure amounted to $81.3 million (including a revaluation loss of $3.8 million), resulting in a shortfall of income over expenditure in the amount of $7.9 million. Of the $73.4 million in income, $38.0 million, or 52 per cent, represents voluntary contribution, $31.7 million, or 43 per cent, pertains to interest income and net gains on the sale of securities, and the remaining $3.7 million, or 5 per cent, represents other/miscellaneous income. If the high interest income and gains on the sale of investments were excluded from total income, the financial position of UNU would have shown that it lacked the necessary resources to support its operations and projects.

The increase in expenditure of approximately 25 per cent is attributable mainly to the increase in staff and other personnel costs, operating expenses and expenditure on research and training networks, and dissemination.

Voluntary contributions increased by 23 per cent, from $31 million to $38 million, while interest income increased by 539 per cent from $5 million to $32 million. The increase in interest income resulted from higher interest rates and gains on the sale of investments.

Conformity to the United Nations system accounting standards

The financial statements of UNU were consistent with the United Nations system accounting standards, except in the case of the following:

(a) The recording of miscellaneous income using the cash basis of accounting instead of the accrual basis;

(b) The non-cancellation of invalid unliquidated obligations;

(c) The treatment of some expenditures pertaining to current and prior bienniums as deferred charges.

Presentation and disclosure of the financial statements

There were variances noted in the financial reports generated by the Financial, Budgetary and Personnel Management System (FBPMS).

Non-expendable property

Inaccuracies in accounting for non-expendable property cast doubts on the completeness and accuracy of the disclosures made in the notes to the financial statements, as follows:

(a) Lack of a comprehensive physical inventory since 2001 at the UNU Programme for Biotechnology in Latin America and the Caribbean (UNU-BIOLAC);

(b) Non-utilization by UNU headquarters of a computerized property and inventory system.

Programme management

The following inaccuracies were noted with regard to programme management:

(a) There was no complete and organized documentation on 18 projects at UNU headquarters, 8 at the World Institute for Development Economics Research (UNU-WIDER), 7 at the International Network on Water, Environment and Health (UNU-INWEH) and 18 at UNU-BIOLAC;

(b) The absence of performance indicators, external factors and end-users or beneficiaries of output rendered it difficult to assess and evaluate the performance and overall effectiveness of the programmes and activities of UNU headquarters, UNU-WIDER, UNU-BIOLAC and the International Leadership Institute (UNU-ILI);

(c) Salaries of research staff were not part of project costing since this was not yet programmed in FBPMS;

(d) Four programmes of the Institute of Advanced Studies (UNU-IAS) disclosed that percentages of expenditure were higher than reported physical accomplishments;

(e) Eleven projects programmed and begun in 2002 were completed in May 2005, well beyond their scheduled dates of completion in 2004.

Procurement

In regard to procurement, UNU headquarters did not prepare a procurement plan and it restricted the number of invitees/prospective bidders to three or less.

Consultants and individual contractors

Certain issues concerning advance payments, terms of reference, performance evaluation reports, durations of service and statements of good health were raised in regard to the services of consultants and individual contractors.

Recommendations

The Board has made several recommendations based on its audit observations. A summary of its main recommendations is contained in paragraph 13 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of United Nations University (UNU) for the biennium 2004-2005 in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article IX of the charter of UNU. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency, and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium ended 31 December 2005 had been incurred for the purposes approved by the General Assembly, whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of UNU presented fairly its financial position as at 31 December 2005 and the results of its operations for the biennium then ended, in accordance with United Nations system accounting standards. The audit included a general review of the financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The reviews focused primarily on the efficiency of financial procedures, internal financial controls and, in general, the administration and management of UNU.

4. The audit was carried out at UNU headquarters and at: the Institute of Advanced Studies (UNU-IAS) in Yokohama, Japan; the International Network on Water, Environment and Health (UNU-INWEH) in Hamilton, Ontario, Canada; the International Leadership Institute (UNU-ILI) in Amman; the World Institute for Development Economics Research (UNU-WIDER) in Helsinki; the Institute for New Technologies (UNU-INTECH) in Maastricht, the Netherlands; the International Institute for Software Technology (UNU-IIST) in Macao, China; and the Programme

for Biotechnology in Latin America and the Caribbean (UNU-BIOLAC) in Caracas.[1]

5. In paragraph 6 of resolution 57/278 A of 20 December 2002, the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability. UNU informed the Board that the UNU Council had reviewed governance structures within the UNU system in relation to the advisory committees and boards of the UNU research and training centres and programmes. The responsibilities of the advisory committees and boards and the directors of research and training centres and programmes are spelled out in the statutes for each training centre or programme.

6. The Board continued its practice of reporting to UNU the results of specific audits in management letters containing detailed observations and recommendations. This practice allowed for an ongoing dialogue with the University.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with UNU, the views of which have been appropriately reflected in the report.

8. A summary of the Board's main recommendations is contained in paragraph 13. The detailed findings and recommendations are reported in paragraphs 15 to 82.

1. Previous recommendations not fully implemented

Biennium ended 31 December 2003

9. The Board reviewed the measures taken by UNU to implement the recommendations made by the Board in its report for the biennium ended 31 December 2003.[2] Details of the action taken and comments of the Board are contained in the present report and are summarized in the annex to the present chapter. Of 25 recommendations made by the Board of Auditors for the biennium 2002-2003, UNU implemented 10 (40 per cent), 13 (52 per cent) were partially implemented and 2 (8 per cent) were not implemented.

10. The Board has reiterated, as summarized in the annex to the present chapter, previous recommendations that have not yet been fully implemented. The Board invites UNU to assign specific responsibility and establish an achievable time frame for their implementation.

[1] The schedule of audits for the biennium 2004-2005 was as follows: UNU-IAS, 21-25 March 2005; UNU-IIST, 21 March-1 April 2005; UNU-BIOLAC, 2-13 May 2005; UNU-INTECH, 26 September-7 October 2005; UNU-WIDER, 10-21 October 2005; UNU-INWEH, 31 October-11 November 2005; UNU-ILI, 10-22 January 2006; and UNU Centre, 28 March-15 April 2005 and 27 March-21 April 2006.

[2] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), vol. IV, chap. II.

Ageing of previous recommendations

11. The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented. The financial period in which such recommendations were first made is indicated in the annex to the present chapter.

12. Of the 15 recommendations not yet fully implemented or not implemented, 3 (20 per cent) relate to the 2000-2001 biennium and 12 (80 per cent) to the 2002-2003 biennium. Further comments by the Board on these specific recommendations appear in the present report.

2. Main recommendations

13. **The Board recommends that UNU:**

(a) **Implement a strategy so as to be less dependent on the Endowment Fund for its sustainability (para. 21);**

(b) **Observe consistently the accrual basis of accounting for miscellaneous income (para. 28);**

(c) **Enforce the prompt settlement of travel claims to ensure that unliquidated obligations in respect of travel are valid and accurate; cancel the obligations made pertaining to travel that did not materialize; and ascertain that expenditures are properly obligated during the financial period to which they pertain (para. 31);**

(d) **Record expenditures in the appropriate financial periods to ensure that expenditures classified as deferred charges pertain only to future financial periods (para. 35);**

(e) **Request a statement of clarification from the host Government as to the nature of its $1 million contribution (para. 46);**

(f) **Identify measurable and quantifiable targets, accomplishments and performance indicators to improve the performance measurement process, reflect the real performance of projects and programmes and enable the linking of physical accomplishments with financial expenditures (para. 64);**

(g) **Require programme managers to: submit periodically and regularly progress reports on ongoing projects; reassess the project situation and address possible causes of project slippages and/or deviations; state the project status to the extent that it relates to the project workplan or output to allow for a proper assessment of the project's accomplishments; and adopt measures to accomplish the project in accordance with the time frame and within the budget ceiling (para. 72);**

(h) **Adhere strictly to the provisions of the United Nations Procurement Manual in the preparation of procurement plans and solicitation of bids (para. 79).**

14. The Board's other recommendations are contained in paragraphs 38, 40, 42, 51, 57, 68 and 81.

B. Detailed findings and recommendations

1. Financial overview

15. The University is financed entirely from voluntary contributions from Governments, bilateral and multilateral agencies, foundations and other public and private sources. It derives its income from three sources: the Endowment Fund, the Operating Fund and the Trust Fund. The Endowment Fund was established in the early 1970s as a capital fund from the $100 million pledged contribution of the Government of Japan. Non-earmarked voluntary contributions received by UNU are credited to the Endowment Fund, which is invested to generate the University's basic revenue for its Operating Fund.

16. The Board performed an analysis of the University's financial position as at 31 December 2005. The key financial figures of UNU funds for the bienniums 2002-2003 and 2004-2005 are set out in table 1.

Table 1
Key financial figures for United Nations University funds for the bienniums 2002-2003 and 2004-2005

(Thousands of United States dollars)

	Endowment Fund[a]		*Operating Fund*[a]		*Trust Fund for the Financial Assistance Programme for Students from Developing Countries Studying in Japan*[b]	
	2002-2003	*2004-2005*	*2002-2003*	*2004-2005*	*2002-2003*	*2004-2005*
Total income	37 997	32 519	36 584	38 301	2 947	2 559
Total expenditure	—	3 795	65 131	75 013	1 714	2 517
Excess (shortfall) of income over expenditure	37 997	28 724	(28 547)	(36 712)	1 233	42
Total assets	270 646	283 760	58 282	40 712	1 575	2 717
Total liabilities	9 037	4 829	15 095	21 636	82	1 182
Reserves and fund balances	261 609	278 931	43 187	19 076	1 493	1 535
Major accounts						
Voluntary contributions	1 119	1 897	29 645	33 534	2 947	2 559
Staff and other personnel costs	—	—	28 308	33 819	—	1 189
Research and training networks, and dissemination	—	—	24 897	27 175	—	651
Transfer from (to) other funds	29 543	(11 402)	29 543	11 402	—	—
Cash and term deposits, investments and cash pool	262 528	8 434	39 784	12 608	2	292
Voluntary contributions receivable	5 910	5 077	2 527	173	—	—
Inter-fund balances receivable	242	4 492	9 312	5 756	—	—
Inter-fund balances payable	9 037	4 829	517	5 419	—	—
Unliquidated obligations	—	—	7 009	6 643	—	455

	Endowment Fund[a]		*Operating Fund*[a]		*Trust Fund for the Financial Assistance Programme for Students from Developing Countries Studying in Japan*[b]	
	2002-2003	*2004-2005*	*2002-2003*	*2004-2005*	*2002-2003*	*2004-2005*
Cumulative surplus	—	—	35 601	13 913	—	1 535
Fund principal	261 609	278 931	—	—	—	—

[a] Comparative figures for 2002-2003 have been restated to conform to current presentation.
[b] The Trust Fund for the Financial Assistance Programme (UNU-FAP) was included in the UNU Centre operating fund. Effective 1 January 2004, UNU-FAP is shown separately as a trust fund.

Endowment Fund

17. The total reserves and fund balances of the Endowment Fund increased by $17.3 million (6.6 per cent), from $261.6 million as at 31 December 2003 to $278.9 million as at 31 December 2005. The surplus was attributable to the difference between the excess of income over expenditure of $28.7 million and the amount of $11.4 million transferred to the Operating Fund during the biennium 2004-2005.

18. The Board's analysis of transactions for both bienniums showed that interest income increased by $29.0 million (including a net gain on the sale of securities of $14.8 million) or 1,777 per cent. Total assets of $283.8 million as at 31 December 2005 increased by $13.1 million (4.9 per cent) from the $270.7 million as at 31 December 2003, owing mainly to growth in short-term investments of $6.6 million. Total liabilities, representing inter-fund balances payable, decreased by $4.2 million (46.6 per cent), from $9.0 million as at 31 December 2003 to $4.8 million as at 31 December 2005.

Operating Fund

19. Voluntary contributions to the Operating Fund increased by $3.9 million (13 per cent), from $29.6 million in the biennium 2002-2003 to $33.5 million in 2004-2005. Income sources included the transfer of $11.4 million from the Endowment Fund, interest income of $1.1 million, income from services rendered of $2.9 million and miscellaneous income of $0.4 million. Total expenditures increased by $9.9 million (15 per cent), from $65.1 million as at 31 December 2003 to $75.0 million as at 31 December 2005. Compared with $28.5 million as at 31 December 2003, the shortfall in income in the biennium 2004-2005 amounted to $36.7 million. The shortfall was mainly attributable to UNU headquarters ($23.6 million) and 14 research and training centres ($13.1 million), and was caused by the increase in staff and other personnel costs, operating expenses and expenditure on research and training networks, and dissemination.

20. There has been an increasing and continuous trend of shortfall in income from 1999 to the current biennium, as follows: $26 million in the biennium 1998-1999, $29 million in the biennium 2000-2001 and the biennium 2002-2003, and $36 million in the biennium 2004-2005. The increase in income (6 per cent) was not commensurate with the increase in expenditures (15 per cent) during the current

biennium, which was also the case in the previous bienniums, thus resulting in the continuous shortfall. Such a situation may render UNU unable to support its programmes and operating activities in the future. The sustainability of UNU is dependent on its high reserves of $300 million, which are entirely attributable to the Endowment Fund.

21. **The Board recommends that UNU implement a strategy that would enable it to be less dependent on the Endowment Fund for its sustainability.**

22. Total operating reserves and Operating Fund balances decreased significantly by $22.7 million (54.0 per cent), from $41.8 million as at 31 December 2003 to $19.1 million as at 31 December 2005. Total assets of the Operating Fund decreased by $17.6 million (30.2 per cent), from $58.3 million in the biennium 2002-2003 to $40.7 million in 2004-2005. Total liabilities increased by $6.5 million (43 per cent), from $15.0 million as at 31 December 2003 to $21.6 million as at 31 December 2005.

Budget implementation

23. The UNU Council approved a budget of $81.342 million for UNU for the biennium 2004-2005, a 10.6 per cent increase over the budget of $73.555 million for the biennium 2002-2003. UNU stated that the approved budget for the biennium 2004-2005 was to be financed by the following: (a) income of $38.3 million from the Operating Fund and of $2.6 million from the Trust Fund; (b) income of $27.3 million from the Endowment Fund; and (c) income of $21.0 million from the cumulative surplus and specific programme contributions. During the biennium, the UNU Council authorized the use of income from the Endowment Fund of up to $27.7 million.

24. Total expenditure against the approved budget as a result of budget execution amounted to $77.5 million, net of a $3.8 million loss on revaluation.

2. United Nations system accounting standards

25. The Board assessed the extent to which the financial statements of UNU for the biennium ended 31 December 2005 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the Standards, except to the extent raised in the present report in relation to such issues as:

(a) The recording of miscellaneous income of $17,768 using the cash basis of accounting instead of the accrual basis prescribed in paragraph 37 of the United Nations system accounting standards (see paras. 26-28 below);

(b) The non-cancellation of invalid unliquidated obligations of $229,591, contrary to paragraph 41 of the Standards (see paras. 29-31 below);

(c) The treatment of expenditures of $89,235 pertaining to current and prior bienniums as deferred charges, as well as the non-inclusion of $68,234 in said account, in contravention of paragraph 42 of the Standards (see paras. 32-35 below).

Accounting for miscellaneous income

26. As stated in note 2 (d) to the financial statements of UNU and in conformity with paragraphs 4 (iii) and 37 of the United Nations system accounting standards,

income, expenditures, assets and liabilities are recognized using the accrual basis of accounting. In paragraph 21 of its report on UNU for the biennium ended 31 December 2003, the Board reported that UNU used the cash basis of accounting in recording miscellaneous income and recommended the accrual basis of accounting. Although UNU switched to the accrual basis of accounting for income for services rendered effective as of April 2004, two exceptions were noted, resulting in the net overstatement of miscellaneous income by $17,768:

(a) Income of $22,166 from information technology services and use of building facilities pertaining to 2006 were recorded in 2005;

(b) Uncollected income of $4,398 from publications in 2005 was not accrued as at 31 December 2005.

27. The use of the cash basis of accounting also resulted in the net overstatement of other accounts receivable, reserves and fund balances by $17,768 as at 31 December 2005.

28. **The Board reiterates its recommendation that UNU observe consistently the accrual basis of accounting for miscellaneous income, pursuant to paragraph 37 of the United Nations system accounting standards.**

Unliquidated obligations

29. Unliquidated obligations as at 31 December 2005 amounted to $7,098,000. In paragraph 26 of its report on UNU for the biennium ended 31 December 2003, the Board recommended that UNU review periodically the unliquidated obligations and cancel invalid obligations, ensure that all obligations were adequately supported, and reconcile financial records in a timely manner.

30. The Board's review of obligating documents covering transactions aggregating $1,649,148 disclosed that:

(a) A sum of $201,401 covering seven travel claims remained outstanding as at 31 December 2005, notwithstanding that the travel had been completed during the biennium, and the settlement of four of the claims was delayed for more than 12 months. Of the seven claims, UNU assured the Board that one, concerning the separation of a former staff member, would be followed up to expedite submission of the final travel claim; another claim would be cancelled since there was no outstanding item; and the remaining five claims would be kept in order to cover outstanding items relating to the airfare of the participants. UNU informed the Board that, in most cases, travel arrangements had been agreed to by the United Nations Development Programme (UNDP), and UNU was obliged to pay the costs upon receipt of inter-office vouchers. UNU informed the Board that it would continue to monitor and review balances, and any unnecessary balances under these claims would be cancelled;

(b) One claim of $28,190 for the travel of a senior academic programme officer did not materialize owing to the cancellation of his appointment. UNU reasoned that the unliquidated balance of this claim remained uncancelled at the time of the audit for the purpose of covering any related costs, such as cancellation costs and handling charges;

(c) An amount of $2,273 for the annual subscription fee for an electronic journal in 2002, 2003 and 2004 was obligated only on 1 February 2006 owing to the

delivery of invoices, done only late in 2005. UNU explained that it was only then that they were able to issue miscellaneous obligating documents and subsequently process the payment early in 2006.

31. **The Board recommends that UNU: (a) enforce the prompt settlement of travel claims to ensure that unliquidated obligations in respect of travel are valid and accurate; (b) cancel the obligations made pertaining to travel that did not materialize; and (c) ascertain that expenditures are properly obligated during the financial period to which they pertain.**

Deferred charges

32. Paragraph 42 of the United Nations system accounting standards provides that where commitments are incurred against future financial periods, they should be recorded in the organization's accounts or disclosed in a note to the financial statements, and that disbursements against such commitments should be recorded as deferred expenditure. Subparagraph (k) (vi) of note 2 to the UNU financial statements defines deferred charges as normally comprising expenditure items that are not properly chargeable in the current financial period. The Board noted, however, that the deferred charges and other assets of $230,000 under the Operating Fund of UNU headquarters as at 31 December 2005 included expenditures of $89,235 pertaining to the biennium 2004-2005 and prior periods, consisting of the following:

(a) Expenditures amounting to $31,888 pertaining to salaries of UNU staff members, applicable to the biennium 2004-2005, charged by United Nations Headquarters;

(b) Expenditures amounting to $57,345, consisting of charges by UNDP for UNU transactions for the biennium 2002-2003.

33. The Board also noted that the costs of two trips undertaken in January 2006 in the amount of $68,234 were taken up as expenditures instead of being recorded as deferred charges, thereby understating the deferred charges account and overstating the expense account. UNU explained that it was its practice to issue obligations for travel or meetings scheduled in the early part of the ensuing biennium (in this case, January) using funds available in the budget for the prior period. The reason for this practice was because it was necessary to arrange the travel, obtain the visa and authorize the purchase of the air ticket or the payment of travel advances so that travel could be undertaken as scheduled. At the time of issuance of the two travel authorization requests, the budget for the 2006-2007 biennium was not yet available.

34. The Board is concerned that the balance of the deferred charges account as at 31 December 2005 may not be accurate because of the inclusion of transactions that do not pertain to future financial periods and the exclusion of transactions that rightfully should be classified as deferred charges. UNU assured the Board that such charges would be reconciled and classified accordingly.

35. **UNU accepts the Board's recommendation that it record expenditures in the appropriate financial periods to ensure that expenditures classified as deferred charges pertain only to future financial periods.**

3. Presentation and disclosure of the financial statements

36. In accordance with paragraph 12 of General Assembly resolution 55/220 A of 23 December 2000, the Board of Auditors, in conjunction with the Secretary-General and the executive heads of the funds and programmes of the United Nations, continued to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in annexes to the statements in accordance with the United Nations system accounting standards.

Preparation and generation of the financial statements

37. As in previous audits, the Board noted variances between the reported expenditures of the programme units and expenditures generated from the Financial, Budgetary and Personnel Management System (FBPMS). During its interim audit, the Board noted discrepancies between the figures in statement II and the general ledger summary reports at UNU headquarters. At UNU-INWEH, the Board likewise noted a similar occurrence with the disbursements and voluntary contributions in FBPMS and its customized access database, Budget Monitor, caused by the time lag in the recording of transactions in the two systems. Delays in the recording of entries in FBPMS were also noted at UNU-ILI, as in the $0.5 million voluntary contribution of the Government of Jordan. Also, abnormal balances were observed in other accounts.

38. **The Board reiterates its recommendation that UNU consider enhancing the Financial, Budgetary and Personnel Management System to make it consistent with the financial recording and reporting requirements.**

Non-expendable property

39. During its interim audit in May 2005, the Board noted that UNU-BIOLAC had not conducted a comprehensive physical inventory of non-expendable equipment since 2001 and did not maintain property records, designate a property custodian, issue personal property receipts to end-users, or label appropriately non-expendable property for control purposes. This was not compliant with sections 1.2 and 3.6 of administrative instruction ST/AI/2003/5. In the notes to the financial statements, the amount of non-expendable property pertaining to UNU-BIOLAC aggregated $15,000 as at 31 December 2005. The Administration, in its reply dated 29 November 2005, indicated that the recommendations had already been implemented by UNU-BIOLAC.

40. **UNU agreed with the Board's recommendation that it enforce proper measures in the control and safeguarding of non-expendable property, in accordance with the relevant provisions of administrative instruction ST/AI/2003/5.**

41. The Board, during its interim audit of UNU headquarters in 2004, noted that UNU headquarters did not utilize a computerized property and inventory system or apply the United Nations Common Coding System to update its property records. As at 21 April 2006, the Board noted that a Microsoft Access database of property was in use by UNU headquarters but its feasibility was still under evaluation.

42. **The Board reiterates its recommendation that UNU continue to use the computerized property and inventory control system to maintain and update property records, and adopt the United Nations Common Coding System.**

Voluntary and other accounts receivable

43. The Board noted that, at the urging of UNU-ILI, an amount of $400,000 was spent for the construction of a new building costing $200,000 and for the purchase of furniture costing $200,000. The total amount disbursed was to be deducted from the $1 million annual allocation by the Government of Jordan to UNU-ILI for 2005.

44. Charging the costs of construction of the new building and the acquisition of office equipment against the allocation contravenes the provisions of the memorandum of understanding signed on 24 April 1995, which states that the Government of Jordan shall make available an annual contribution of $1 million to finance the operations of the UNU-ILI and that the Government shall make available suitable office premises for the use of the Institute, including such furnishings and equipment as may be initially necessary. The agreement of cooperation dated 17 June 2001 signed by the University of Jordan and the UNU International Leadership Academy states that the title of the building constructed at the campus of the University of Jordan shall be vested in the Government which shall hold it in trust for the University until such time as the Academy ceases its operations in Jordan.

45. As justification, the Administration stated that, given the unpredictability of global events, such as the fluctuation in oil prices, it would not be surprising if the Government of Jordan had incurred a shortfall of funds in regard to the construction of the building and the purchase of furniture. The Administration also stated that it was pleased by the host Government's gesture of providing UNU-ILI with a well-designed building, including furnishings and equipment, and its generating of funds to supplement the resources of the agency.

46. **The Board recommends that the Administration request a statement of clarification from the host Government as to the nature of its $1 million contribution, that is, whether the contribution included the funds spent for the construction of the building and the acquisition of equipment.**

47. The Administration was informed on 18 April 2006 by a representative of the Government of Jordan who is a member of the Advisory Committee of UNU-ILI that the Government would fulfil its pledge of $1 million for 2005 and, accordingly, restore the amounts deducted for construction and furnishings. In accordance with the agreement, a full allocation has been promised for 2006 and is in the process of being received.

Control over allotments

48. The status of expenditure of UNU-INWEH as at 31 October 2005 disclosed overexpenditures of $245,899 and $47,722 for core and specific programme funds, respectively, when compared to the allocated amounts.

49. The University averred that these were not overexpenditures of the approved budget but were temporary cash flow adjustments that resulted from the borrowing of funds for a limited time from one special programme to bridge the gap with another programme. UNU explained that this happened when, due to the exigency

of project implementation, budgets specifically earmarked for a particular programme were utilized for other programmes pending receipt of the contributions pledged for the latter. While it strove to avoid such a situation, UNU was concerned that suspensions or cancellations of programmed projects would hinder the attainment of the goals of the Network. UNU commented that the use of funds budgeted for other projects provided continuing resources for projects for which there were funding problems. UNU explained that this had not always been a comfortable approach for either UNU-INWEH or the UNU Centre, but it had worked inasmuch as programme-related and other expenditures were kept within budget.

50. The Board is concerned that, if not managed properly, projects for which there is sufficient funding might face the risk of their funds being drained.

51. **The Board recommends that UNU strictly utilize funds for the projects for which they are intended and arrange for the timely release of programmed funds.**

4. Liabilities for annual leave and end-of-service and post-retirement benefits

52. The estimated liabilities for after-service health insurance, accrued annual leave and termination benefits are indicated in note 6 to the financial statements and amounted to $5.926 million as at 31 December 2005, as shown in table 2. As disclosed in note 6, subparagraph (a), UNU has not specifically recognized in any of its financial accounts liabilities for after-service health insurance costs or liabilities for other types of end-of-service payment.

Table 2
Liabilities for annual leave and end-of-service benefits and post-retirement benefits
(Millions of United States dollars)

Description	*2002-2003*	*2004-2005*
After-service health insurance net accrued liability	1 644	3 626
Accrued annual leave	1 400	1 300
Unpaid repatriation and relocation entitlement	1 700	1 000
Total	**4 744**	**5 926**

53. The liability for after-service health insurance was based on the estimates made by a consulting actuary engaged by the United Nations to carry out an actuarial valuation on after-service health benefits.

5. Write-off of losses of cash, receivables and property

54. In line with financial regulation 6.4 and financial rules 106.8 (a) and 106.9 (a), UNU informed the Board that, except for the write-off of non-expendable property amounting to $875,000, compared to $651,000 in the previous biennium which related to dispositions and adjustments, no cash, receivables and other assets of UNU had been written off during the biennium ended 31 December 2005.

6. Ex gratia payments

55. The University reported that, in line with financial regulation 5.11 and rule 105.12, no ex gratia payments had been made during the biennium.

7. Programme management

Project documentation

56. The Board's review of the documentation of a sample 18 projects of UNU headquarters carried out under its environment and sustainable development and peace and governance programmes, disclosed that the projects did not contain complete and organized project documents, such as workplans, accomplishment reports, performance indicators, budgetary and financial reports and evaluation and monitoring reports. These documents are necessary to facilitate efficient and effective project implementation, proper monitoring, and reporting of project accomplishments. Similarly, complete and organized project files were not maintained for 8 projects at UNU-WIDER, 7 at UNU-INWEH and 18 at UNU-BIOLAC.

57. **UNU agrees with the Board's reiterated recommendation that it maintain complete and organized project documentation, including workplans, budgetary and financial reports and evaluation and monitoring reports.**

Results-based budgeting

58. The Secretary-General has described results-based budgeting in the United Nations as a logical framework for formulating the programme budget and a mechanism to induce results-oriented accountability and flexibility (A/54/456, para. 26). Results-based budgeting requires that, in the implementation of the programme and mandates of every United Nations agency, the objectives, expected accomplishments, indicators of achievement, external factors and outputs be clearly defined. The expected results should be specific and measurable, attainable and realistic, time-based and related to the objectives.

59. The Board reviewed the approved academic programme and budget of the University for the biennium 2004-2005. The Board noted that the proposed projects were presented in a narrative format which included a brief summary of each project, objectives and rationale, while the financial section of the budget was broken down into specific objects of expenditure for each project. The Board noted, however, that in two items under subprogramme 1, UNU headquarters did not identify performance indicators, external factors, and end-users or beneficiaries of outputs.

60. For UNU-WIDER, the summaries of 13 ongoing and 7 completed projects did not include a measurement of actual fund utilization against the budgeted amount, a measurement of actual accomplishments against expected accomplishments using performance indicators, or an identification of external factors and end-users or beneficiaries of outputs. Owing to the lack of a comparative measurement of actual physical and financial performance, gaps between those two factors were not identified. The Administration explained that UNU-WIDER was operating on the results-based budgeting system within the UNU framework in its capacity as a research centre, as demonstrated in the programme budget for the biennium 2006-2007.

61. Also, UNU-BIOLAC, except for its programme on capacity development, did not clearly and specifically define the expected accomplishments, performance indicators and external factors that could have an impact on the attainment of the expected accomplishments. The Administration assured the Board that efforts had been made in preparing the programme budget for the biennium 2006-2007 to quantify outputs as a step towards results-based budgeting.

62. For its part, UNU-ILI had no approved project proposals indicating objectives or providing a description of the objectives, measurable and quantifiable indicators of performance, the resources to be provided, detailed costed workplans and timetable, expected results and impact for users, or the approved budget. The Administration assured the Board that, with the appointment of a new Director and staff and a new staff structure in place, UNU-ILI would adhere to UNU principles and policies insofar as programme planning, implementation and evaluation.

63. The Board is concerned that the absence of performance indicators, external factors and end-users or beneficiaries of outputs will render it difficult to assess and evaluate the performance and overall effectiveness of programmes and activities.

64. **The Board reiterates its recommendation that UNU identify measurable and quantifiable targets, accomplishments and performance indicators in order to improve the performance measurement process, reflect the real performance of projects and programmes and enable the linking of physical accomplishments with financial expenditures.**

65. The University referred to a report of the Advisory Committee on Administrative and Budgetary Questions in November 2005, citing the considerable progress made in the presentation of the academic programme and budget document for 2006-2007, which was more streamlined and concise, based on an integrated UNU system-wide approach and focused on activities and results of the programmes and subprogrammes, thereby constituting an important step towards results-based budgeting. UNU also cited the conclusion of the audit of the Office of Internal Oversight Services in a report dated February 2006, that while the approved budget for the biennium 2004-2005 was not sufficiently results-based, the budget for 2006-2007 showed that the guidelines for the preparation of the budget specifically encouraged organizational units to reflect a results-based budgeting approach. The Office had also concluded that it was understandably difficult to compare expected outputs with resources utilized (i.e., inputs) in a meaningful manner; therefore, results-based budgeting was an approach that UNU could only achieve over a period of time as organizational units became more conversant with it and identified more measurable outputs.

Costing of projects

66. The Board noted that FBPMS automatically charged salaries and other personnel costs under expenditure object codes 000-100 (salaries-common staff costs). At UNU-WIDER, an amount of $2,380,255, representing expenditures on research and training networks, and dissemination, excluded the salaries of researchers and their staff directly involved in the projects, which could impact upon project costing and evaluation. For UNU-INTECH, the reports of completed and ongoing projects for the period from 1 January 2004 to 30 June 2005 indicated only the expenditures on programme development, coordination and research. The salaries of research staff were not part of the project costing.

67. The inclusion of the salaries of researchers in the costing of projects has not yet been standardized across the UNU system. UNU informed the Board that it had already instructed each research and training centre and programme to include the cost of salaries of researchers and staff who are directly involved in projects in its programme budget for the biennium 2006-2007, which would eventually serve as a basis for including in FBPMS the item of expenditure in regard to each particular project.

68. **The Board recommends that UNU reprogramme FBPMS to apportion automatically the salaries of those involved in projects to expenses for research and training networks, and dissemination.**

69. The University explained that reprogramming FBPMS would entail exorbitant costs which might not be sustainable for UNU. Since it was estimated that FBPMS would support UNU for the next three to four years at the most, UNU would be consulting with an information technology company which services the System to assess if topical improvements at a reasonable cost could be considered.

Programme evaluation

70. The Advisory Committee on Administrative and Budgetary Questions has encouraged United Nations organizations to continue to develop and improve performance measurement standards. It has expressed concern that reported expenditures might not correlate appropriately with the level of implementation of programmes, and considers that particular attention should be paid to reported expenditures and their relationship to programme delivery.

71. The Board, during its interim audits, reviewed the financial implementation and programme delivery (i.e., technical implementation) of various projects of the UNU regional training centres, and noted the following:

(a) The percentages of physical accomplishments of nine programmes of UNU-IAS were rough estimates provided by the Institute in the absence of the monitoring and evaluation reports of the programme managers. The Institute did not provide estimates for another three programmes, although in its previous audit, the Board had raised the issue of the linkage between expenditure and accomplishment in regard to one programme, and UNU-IAS had committed itself to addressing it;

(b) At UNU-WIDER, 11 projects programmed and started during the biennium 2002-2003 were completed in May 2005, well beyond their scheduled dates of completion in 2004. Project revisions resulting from the extended duration of the project, additional work to be done etc., were not properly documented. The Administration informed the Board that it would aim to improve the documentation of adjustments to project plans and that a project management policy and system for better project management were under development at the UNU Centre;

(c) At UNU-INWEH, the report on project status could not be directly linked to the project plan and the expected outputs of the project. Assessing actual against expected outputs of the project might prove difficult, since the report merely stated the activities undertaken on selected dates instead of the extent of the work done, the percentage completed, and the problems encountered in carrying out the project. The Administration informed the Board that the senior management of UNU-INWEH continuously assessed project accomplishments in qualitative and

quantitative terms and recorded the findings in semi-annual and annual reports submitted to the UNU Centre;

(d) At UNU-ILI, a comparison of programme budget against actual project expenditures for the three major programmes for the biennium showed an overall 54 per cent utilization of funds. While the financial accomplishments appeared favourable, it did have some negative implications insofar as physical accomplishments, since one programme had accomplished only 7 of the 17 targeted projects, or 41 per cent. Furthermore, a review of actual expenditures of two other international leadership programmes of UNU-ILI showed total expenditures aggregating $160,176, which was $27,176 (20 per cent) more than the estimated budget of $133,000. The Administration reasoned that the low implementation rate was caused by the change of directorship in mid-2004, understaffing in regard to key academic personnel, and the cancellation of courses owing to the unstable security situation in Jordan. The Administration commented that, in future, expenditures would be closely monitored vis-à-vis the programme budget with the appointment of a new Director and staff.

72. **The Board recommends that UNU require the programme managers of the concerned research training centres and programmes to: (a) submit periodically and regularly progress reports on ongoing projects as the basis for linking physical accomplishments with financial expenditures; (b) reassess the project situation and address possible causes of project slippages and/or deviations; (c) state the project status to the extent that it relates to the project workplan or output to allow for a proper assessment of the project's accomplishments; and (d) adopt measures to accomplish the project in accordance with the time frame and within the budget ceiling.**

8. Procurement

73. The United Nations Procurement Manual states that procurement planning is essential for the effective and timely solicitation of bids or proposals, award of contracts and delivery of the goods and services required (sect. 8.1 (1)). It also states that the requisitioning offices and the United Nations Procurement Section or Chief Procurement Officer shall communicate, and to the extent feasible, meet on an annual basis to set up spending plans, including procurement plans, for the forthcoming budget period(s), and that such planning shall, to the extent possible, be used to obtain economies of scale and other benefits to the Organization (sect. 8.1 (4) (a)).

74. The Board noted the absence of a procurement plan for commonly used supplies and equipment at UNU headquarters. Acquisitions were added as the need arose, giving little opportunity for management to scout the market for potentially more economical sources and to maximize the benefit of the discounts that would result from bulk purchases.

75. The University averred that it had coordinated the formulation of a comprehensive structure and equipment renewal plan for the UNU headquarters building which was submitted in July 2005 to the Ministry of Education, the owner of the building, for its budgetary discussion with the Ministry of Finance of Japan. As a result of this plan, the Ministry will establish a new allotment in its budget for the Japanese fiscal year 2006 on the prevention and repair of structural damages. For the 2005 fiscal year, the Ministry used funds remaining at its disposal for direct

structural repairs to the building. UNU claimed this as a significant achievement, since building costs represent a large component of its procurement expenses.

76. The University also claimed that although the costs of other items procured in 2005 could not be planned for in advance, such as the shatter-resistant film for the windows of the headquarters building, imposed as an urgent security requirement by the Department of Safety and Security, the renewal of the contract for the building's maintenance and operation, including security services and custodial cleaning, showed robust advance planning to ensure the best value for money for UNU. The University would, however, ensure that a procurement plan for information technology equipment was prepared by organizational units.

77. The Board's further review of the procurement system at UNU headquarters disclosed that for 25 of 152 purchase orders, the costs of which ranged from $2,500 to $24,666, there were three or fewer invitees or prospective vendors. This was not in compliance with section 9.3.4 (1) of the United Nations Procurement Manual, which requires a minimum of five prospective vendors.

78. The Board is concerned that limiting the number of invitees to three or fewer would deprive UNU of the opportunity to avail itself of the most advantageous price. UNU assured the Board, however, that it would update and expand its database of prospective vendors to strengthen its commitment to maximum competition and ensure the best value for money, and would make every effort to invite the minimum number of vendors to participate in the bidding.

79. **The Board recommends that UNU adhere strictly to the provisions of the United Nations Procurement Manual in respect of the preparation of procurement plans and the minimum number of bidders.**

9. Consultants and individual contractors

80. The Board raised certain issues with the Administration in regard to the services of consultants and individual contractors, as follows:

(a) In 33 institutional contract agreements and 21 consultant contracts issued by UNU headquarters, UNU-IAS, UNU-INWEH and UNU-ILI, there was a provision that allowed advance payments to be made upon signature of contracts, ranging from 22 per cent to 92 per cent of the contractual amount, in violation of financial rule 105.19 (a), on advance payment. In the case of UNU-INWEH, UNU explained that the advance payments were to cover mobilization costs and that a record of reasons for advance payment had been prepared and recorded in the project files and submitted to the UNU Centre;

(b) At UNU-IAS and UNU-ILI, the terms of reference for the work assignments of consultants were not stated in tangible, measurable and quantifiable terms, as required under section 3.3 of administrative instruction ST/AI/1999/7. Also at UNU-IAS, the timeliness of delivery of outputs could not be determined because the dates of receipt of reports on the work accomplished had not been documented. At UNU-WIDER, the Board also noted delays in the submission of reports of work accomplished;

(c) No performance evaluation reports, as required under section 5.13 of ST/AI/1999/7, were submitted for 3 consultants at UNU-IAS, 6 at UNU-INTECH and 27 at UNU-WIDER, a total of 36. UNU claimed that the evaluation of a

consultant's performance generally took place at the end of the contract as a point of reference for the consideration of future such contracts, in accordance with administrative circular UNU/ADM/2004/01;

(d) One fellow/research associate at UNU-IAS rendered 82 months of continuous service, two individual contractors and one consultant at UNU-WIDER rendered 5 consecutive years of service and one consultant at UNU-INTECH rendered 3 consecutive years of service, in violation of section 5.3 of ST/AI/1999/7, which states that no consultant shall provide services for more than 24 months in a 36-month period. While UNU submits to this requirement, it reasoned that there were instances whereby a portion of the services rendered by consultants under UNU personnel service agreements should not be considered when calculating the period of service. Under its policy, the initial appointment of personnel engaged under such agreements should normally be for a period of two years and renewed for another term of two years, subject to the Rector's justification. However, the consultant at UNU-WIDER was issued a personnel service agreement, while the UNU-IAS consultant was issued a consultant contract and personnel service agreement interchangeably, that is, the consultant worked for two years on a personnel service agreement, three years as consultant, another four years on a personnel service agreement, and so on;

(e) The selection of consultants and individual contractors at UNU-INTECH, UNU-INWEH and UNU-ILI was not made from the widest possible geographical base and the need to achieve gender balance was not sufficiently taken into account, as required under sections 4.3 and 4.4 of ST/AI/1999/7;

(f) Medical clearances or a statement of good health were not required prior to the commencement of work for consultants hired at UNU-INTECH and UNU-ILI, in violation of section 4.7 of ST/AI/1999/7/Amend.1;

(g) In 19 cases at UNU-INWEH, consultants commenced work prior to the approval of their contracts, in violation of paragraph 15 of ST/AI/296;

(h) Other issues noted by the Board at UNU-INTECH included the extension of the contract of a senior research fellow so that the consultant could complete his original assigned task, and a contractor who was allowed to undertake simultaneously four projects, thereby posing the risk that expected outputs might not be delivered on time.

81. **The Board recommends that UNU adhere to the provisions of rule 105.19 (a) of the Financial Regulations and Rules of the United Nations, in relation to advance payments; administrative instruction ST/AI/1999/7, in regard to terms of reference, performance evaluation reports, limits on the duration of service, medical clearances, geographical distribution and gender balance; and administrative instruction ST/AI/296, in regard to the commencement of work.**

10. Cases of fraud and presumptive fraud

82. The University informed the Board that no case of fraud or presumptive fraud had come to its notice during the biennium 2004-2005.

C. Acknowledgement

83. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Rector of the United Nations University and his officers and staff.

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit
Chairman, United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France

28 July 2006

Note: The members of the Board of Auditors have signed only the original English version of the audit report.

Annex

Status of implementation of recommendations for the biennium ended 31 December 2003[a]

Topic	*Biennium first reported*	*Implemented*	*Under implementation*	*Not implemented*	*Number of recommendations*	*Reference in the present report*
Accounting for miscellaneous income	2002-2003		Para. 23		1	Paras. 26-28
Unliquidated obligations	2002-2003		Para. 26		1	Paras. 29-31
Deferred charges	2002-2003		Para. 30		1	Paras. 32-35
Preparation and generation of financial statements	2000-2001			Para. 34	1	Paras. 37-38
Trust Fund	2002-2003	Para. 39			1	—
Non-expendable property	2002-2003		Para. 42		1	Paras. 39-42
Other accounts receivable	2002-2003		Para. 44		1	—
Other accounts payable	2002-2003		Para. 46		1	—
Gains/losses on securities	2002-2003	Para. 49			1	—
Control over allotments	2002-2003		Para. 51		1	Paras. 48-51
Financial reporting on projects	2000-2001			Para. 53	1	Paras. 66-69
Liabilities for annual leave, end-of-service benefits and post-retirement benefits	2002-2003	Para. 56			1	Paras. 52-53
Reported expenditure versus programme delivery	2002-2003		Para. 65		1	Paras. 58-65
Programme expenditure reports	2000-2001		Para. 69		1	Paras. 70-72
Programme staffing and monitoring of acceptability of outputs	2002-2003	Para. 72			1	—
Project documentation	2002-2003		Para. 76		1	Paras. 56-57
Publications	2002-2003	Para. 78			1	—
Information and communication technology: strategic plan	2002-2003	Para. 82			1	—
Information technology: organization and relationship	2002-2003	Para. 85			1	—
Acquisition and maintenance of technological infrastructure	2002-2003		Para. 89		1	—
Management of data and facilities	2002-2003		Para. 93		1	—
Procurement	2002-2003	Para. 97			1	—
Travel advances	2002-2003	Para. 101			1	—

[a] See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5* (A/59/5), vol. IV, chap. II.

Topic	*Biennium first reported*	*Implemented*	*Under implementation*	*Not implemented*	*Number of recommendations*	*Reference in the present report*
Consultants and individual contractors	2002-2003		Para. 104		1	Paras. 80-81
Staff training	2002-2003	Para. 106			1	
Total		**10**	**13**	**2**	**25**	
Percentage implemented		**40**	**52**	**8**	**100**	

Chapter III
Audit opinion

We have audited the accompanying financial statements of the United Nations University, comprising statements I to IV, schedule 2.1, the annex thereto and the supporting notes for the biennium ended 31 December 2005. These financial statements are the responsibility of the Rector. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency, and the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes the examination, on a test basis and as considered by the auditor to be necessary in the circumstances, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Rector, as well as an evaluation of the overall presentation of the financial statements. We believe our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations University as at 31 December 2005 and the results of its operations and its cash flows for the period then ended, in accordance with the United Nations system accounting standards.

Furthermore, in our opinion, the transactions of the United Nations University that have come to our notice, or that we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the United Nations University.

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit
Chairman, United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France

28 July 2006

Note: The members of the Board of Auditors have signed only the original English version of the audit opinion.

Chapter IV
Certification of the financial statements

31 March 2006

The financial statements of the United Nations University for the biennium ended 31 December 2005 have been prepared in accordance with financial rule 106.10.

The summary of significant accounting policies applied in the preparation of these statements is included in the notes to the financial statements. These notes provide additional information and clarifications for the financial activities undertaken by the University during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations University, numbered I to IV, are correct.

(*Signed*) Warren **Sach**
Assistant Secretary-General, Controller

Chapter V

Financial statements for the biennium ended 31 December 2005

Statement I

United Nations University[a]

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2005

(Thousands of United States dollars)

	UNU Centre Operating Fund[b]	*UNU-WIDER Operating Fund*	*UNU-INTECH Operating Fund*	*UNU-HIST Operating Fund*	*UNU-INRA Operating Fund*	*UNU-BIOLAC Operating Fund*	*UNU-IAS Operating Fund*
Income							
Voluntary contributions	9 549	2 437	3 683	770	35	—	9 072
Interest income	811	123	75	24	5	—	—
Income for services rendered	2 780	—	—	—	—	—	63
Other/miscellaneous income							
Sales income and royalties from publications	405	26	—	20	—	—	—
Miscellaneous income	92	6	204	1	—	—	21
Total income	**13 637**	**2 592**	**3 962**	**815**	**40**	**—**	**9 156**
Expenditure							
Staff and other personnel costs	17 952	3 543	3 388	2 360	987	—	2 347
Travel	1 036	76	96	137	93	—	221
Contractual services	397	59	46	4	25	—	55
Operating expenses	1 580	371	464	356	37	—	1 925
Acquisitions	249	69	65	34	12	—	117
UNU headquarters building	5 260	—	—	—	—	—	—
Research and training networks, and dissemination	10 778	2 790	1 676	1 640	324	842	5 424
Total expenditure	**37 252**	**6 908**	**5 735**	**4 531**	**1 478**	**842**	**10 089**
Excess (shortfall) of income over expenditure	**(23 615)**	**(4 316)**	**(1 773)**	**(3 716)**	**(1 438)**	**(842)**	**(933)**
Savings on, or cancellation of, prior period obligations	1 468	167	—	232	71	151	399
Transfers (to) from other funds	7 732	(2 677)	(350)	1 584	347	(882)	—
Reserves and fund balances, beginning of period	22 886	9 043	3 221	3 187	202	947	1 809
Reserves and fund balances, end of period	**8 471**	**2 217**	**1 098**	**1 287**	**(818)**	**(626)**	**1 275**

United Nations University[a]

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2005

(Thousands of United States dollars)

	UNU-HLI Operating Fund	*UNU-INWEH Operating Fund*	*UNU-CRIS Operating Fund*	*UNU-EHS Operating Fund*	*UNU-IAF Operating Fund*	*UNU-ICDF Operating Fund*	*UNU-RCF Operating Fund*
Income							
Voluntary contributions	1 525	2 908	336	3 219	—	—	—
Interest income	38	20	—	—	—	—	—
Income for services rendered	—	—	—	—	—	—	—
Other/miscellaneous income							
Sales income and royalties from publications	—	—	—	—	—	—	—
Miscellaneous income	—	52	—	1	—	—	—
Total income	**1 563**	**2 980**	**336**	**3 220**	**—**	**—**	**—**
Expenditure							
Staff and other personnel costs	916	754	330	1 242	—	—	—
Travel	84	153	4	70	—	—	—
Contractual services	21	18	1	197	—	—	—
Operating expenses	74	86	—	298	—	—	—
Acquisitions	48	11	—	170	—	—	—
UNU headquarters building	—	—	—	—	—	—	—
Research and training networks, and dissemination	372	2 218	—	1 030	54	27	—
Total expenditure	**1 515**	**3 240**	**335**	**3 007**	**54**	**27**	**—**
Excess (shortfall) of income over expenditure	**48**	**(260)**	**1**	**213**	**(54)**	**(27)**	**—**
Savings on, or cancellation of, prior period obligations	14	45	7	—	—	—	—
Transfers (to) from other funds	148	—	—	—	2 000	1 000	2 500
Reserves and fund balances, beginning of period	213	304	20	—	—	—	—
Reserves and fund balances, end of period	**423**	**89**	**28**	**213**	**1 946**	**973**	**2 500**

Statement I (continued)

United Nations University[a]

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2005

(Thousands of United States dollars)

	Operating Fund[b]	*Endowment Fund*	*Trust Fund*[c]	*Total, 2005*	*Total, 2003*[d]
Income					
Voluntary contributions	33 534	1 897	2 559	37 990[e]	30 764
Interest income	1 096	30 622[f]	—	31 718	4 964
Income for services rendered	2 843	—	—	2 843	2 908
Other/miscellaneous income					
Sales income and royalties from publications	451	—	—	451	429
Miscellaneous income	377	—	—	377	35 516
Total income	**38 301**	**32 519**	**2 559**	**73 379**	**74 581**
Expenditure					
Staff and other personnel costs	33 819	—	1 189	35 008	28 308
Travel	1 970	—	47	2 017	1 952
Contractual services	823	—	555	1 378	723
Operating expenses	5 191[g]	3 795[h]	75	9 061	3 933
Acquisitions	775	—	—	775	867
UNU headquarters building	5 260	—	—	5 260	4 589
Research and training networks, and dissemination	27 175	—	651	27 826	24 759
Total expenditure	**75 013**	**3 795**	**2 517**	**81 325**	**65 131**
Excess (shortfall) of income over expenditure	**(36 712)**	**28 724**	**42**	**(7 946)**	**9 450**
Savings on, or cancellation of, prior period obligations	2 554	—	—	2 554	3 354
Transfers (to) from other funds[i]	11 402	(11 402)	—	—	—
Reserves and fund balances, beginning of period	41 832	261 609	1 493	304 934	292 130
Reserves and fund balances, end of period	**19 076**	**278 931**	**1 535**	**299 542**	**304 934**

(Footnotes to Statement I)

[a] See notes 2, 3 and 4.

[b] The Trust Fund for the Financial Assistance Programme (UNU-FAP) was previously included in the UNU Centre (formerly UNU headquarters) Operating Fund. Effective 1 January 2004, UNU-FAP is shown separately as a trust fund and the beginning of period reserves and fund balances of the UNU Centre Operating Fund have been adjusted accordingly.

[c] Comparative figures have been restated to conform to the current presentation.

[d] Represents voluntary contributions from Governments of $30,515,979 and other voluntary contributions in the amount of $7,473,793.

[e] Represents interest income of $17,148,384 and net gain on sale of securities of $14,780,373 less investment management fees of $1,306,893.

[f] Includes loss on exchange in the amount of $607,428.

[g] Represents loss on revaluation of $3,794,981.

[h] See note 2, subpara. (l) (iv).

The accompanying notes are an integral part of the financial statements.

Statement II

United Nations University[a]

Statement of assets, liabilities, reserves and fund balances as at 31 December 2005

(Thousands of United States dollars)

	UNU Centre Operating Fund[b]	*UNU-WIDER Operating Fund*	*UNU-INTECH Operating Fund*	*UNU-IIST Operating Fund*	*UNU-INRA Operating Fund*	*UNU-BIOLAC Operating Fund*	*UNU-IAS Operating Fund*
Assets							
Cash and term deposits	5 782	2 316	531	1 262	—	—	—
Short-term investments	—	—	—	—	—	—	—
Long-term investments	—	—	—	—	—	—	—
Cash pool	11 097	997	643	525	114	—	—
Voluntary contributions receivable	—	—	—	—	—	—	—
Inter-fund balances receivable	127	—	—	—	165	—	—
Inter-office transactions pending processing	4 335	—	—	—	—	—	2 250
Other accounts receivable	753	45	124	67	11	—	142
Deferred charges and other assets	153	25	21	20	0	—	11
Total assets	**22 247**	**3 383**	**1 319**	**1 874**	**290**	**—**	**2 403**
Liabilities							
Unliquidated obligations	3 295	640	190	401	122	54	1 040
Inter-fund balances payable	5 419	—	—	—	—	—	—
Inter-office transactions pending processing	4 764	526	25	143	958	569	—
Other accounts payable	298	—	6	43	28	3	88
Other liabilities	—	—	—	—	—	—	—
Total liabilities	**13 776**	**1 166**	**221**	**587**	**1 108**	**626**	**1 128**
Reserves and fund balances							
Fund principal	—	—	—	—	—	—	—
Balances related to projects funded by donors	3 141	165	722	200	73	—	609
Cumulative surplus (deficit)	5 330	2 052	376	1 087	(891)	(626)	666
Total reserves and fund balances	**8 471**	**2 217**	**1 098**	**1 287**	**(818)**	**(626)**	**1 275**
Total liabilities, reserves and fund balances	**22 247**	**3 383**	**1 319**	**1 874**	**290**	**—**	**2 403**

United Nations University[a]

Statement of assets, liabilities, reserves and fund balances as at 31 December 2005

(Thousands of United States dollars)

	UNU-ILI Operating Fund	*UNU-INWEH Operating Fund*	*UNU-CRIS Operating Fund*	*UNU-EHS Operating Fund*	*UNU-JAF Operating Fund*	*UNU-ICDF Operating Fund*	*UNU-RCF Operating Fund*
Assets							
Cash and term deposits	(15)	812	—	1 920	—	—	—
Short-term investments	—	—	—	—	—	—	—
Long-term investments	—	—	—	—	—	—	—
Cash pool	—	—	—	—	—	—	—
Voluntary contributions receivable	—	—	173	—	—	—	—
Inter-fund balances receivable	45	—	—	—	1 946	973	2 500
Inter-office transactions pending processing	511	—	—	—	—	—	—
Other accounts receivable	32	263	3	33	—	—	—
Deferred charges and other assets	—	—	—	—	—	—	—
Total assets	**573**	**1 075**	**176**	**1 953**	**1 946**	**973**	**2 500**
Liabilities							
Unliquidated obligations	148	366	3	384	—	—	—
Inter-fund balances payable	—	—	—	—	—	—	—
Inter-office transactions pending processing	—	620	145	1 349	—	—	—
Other accounts payable	2	—	—	7	—	—	—
Other liabilities	—	—	—	—	—	—	—
Total liabilities	**150**	**986**	**148**	**1 740**	—	—	—
Reserves and fund balances							
Fund principal	—	—	—	—	—	—	—
Balances related to projects funded by donors	23	166	—	64	—	—	—
Cumulative surplus (deficit)	400	(77)	28	149	1 946	973	2 500
Total reserves and fund balances	**423**	**89**	**28**	**213**	**1 946**	**973**	**2 500**
Total liabilities, reserves and fund balances	573	1 075	176	1 953	1 946	973	2 500

Statement II (continued)

United Nations University[a]

Statement of assets, liabilities, reserves and fund balances as at 31 December 2005

(Thousands of United States dollars)

	Operating funds[b]	*Endowment Fund*	*Trust Fund*[c]	*All funds eliminations*	*Total, 2005*	*Total, 2003*[d]
Assets						
Cash and term deposits	12 608	8 434	292	—	21 334	16 196
Short-term investments	—	6 564[f]	—	—	6 564	8 702
Long-term investments	—	256 523[g]	—	—	256 523	248 511
Cash pool	13 376[h]	—	—	—	13 376	28 903
Voluntary contributions receivable	173	5 077	—	—	5 250	8 437
Inter-fund balances receivable	5 756	4 492	—	(10 248)	—	—
Inter-office transactions pending processing	7 096	—	2 014	(9 110)	—	—
Other accounts receivable	1 473	2 670	411	—	4 554	2 776
Deferred charges and other assets	230	—	—	—	230	251
Total assets	**40 712**	**283 760**	**2 717**	**(19 358)**	**307 831**	**313 776**
Liabilities						
Unliquidated obligations	6 643	—	455	—	7 098	6 871
Inter-fund balances payable	5 419	4 829	—	(10 248)	—	—
Inter-office transactions pending processing	9 099	—	11	(9 110)	—	—
Other accounts payable	475	—	716	—	1 191	1 686
Other liabilities	—	—	—	—	—	285
Total liabilities	**21 636**	**4 829**	**1 182**	**(19 358)**	**8 289**	**8 842**
Reserves and fund balances						
Fund principal	—	278 931	—	—	278 931	261 609
Balances related to projects funded by donors	5 163	—	—	—	5 163	7 586
Cumulative surplus (deficit)	13 913	—	1 535	—	15 448	35 739
Total reserves and fund balances	**19 076**	**278 931**	**1 535**	**—**	**299 542**	**304 934**
Total liabilities, reserves and fund balances	**40 712**	**283 760**	**2 717**	**(19 358)**	**307 831**	**313 776**

(Footnotes to Statement II)

[a] See notes 2, 3 and 4.

[b] The Trust Fund for the Financial Assistance Programme (UNU-FAP) was previously included in the UNU Centre Operating Fund. Effective 1 January 2004, UNU-FAP is shown separately as a trust fund.

[c] Comparative figures have been restated to conform to the current presentation.

[d] Represents investments in bonds, the market value of which was $6,563,932.

[e] Represents investments in bonds and equities, the market value of which was $287,589,007.

[f] Represents share of United Nations offices away from Headquarters cash pool and comprises cash and deposits of $8,706,929, short-term investments of $4,626,735 (market value $4,626,735) and accrued interest receivable of $41,833.

The accompanying notes are an integral part of the financial statements.

Schedule 2.1

United Nations University

Combined status of pledges unpaid as at 31 December 2005

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
UNU headquarters					
Government donations					
Japan	686	5 936	6 635	13	—
Subtotal	**686**	**5 936**	**6 635**	**13**	—
Public donations					
Aoyama Gakuin University	—	36	36	—	—
Asian Women's Fund	—	375	375	—	—
Deutsche Gesellschaft Fuer Technische Zusammenarbeit	—	59	59	—	—
European Forest Institute	—	48	48	—	—
Global Resource Information Database (GRID) Arendal	—	102	102	—	—
Hewlett Packard	—	71	71	—	—
International course participants	—	73	73	—	—
International START Secretariat	—	36	36	—	—
Iwate Prefectural Government	—	75	75	—	—
Japan Foundation for UNU	—	464	464	—	—
Kanagawa Foundation for Academic and Cultural Exchange	—	70	70	—	—
Kirin Brewery Co. Ltd.	—	651	651	—	—
Okinawa Prefectural Government	—	36	36	—	—
Shimazu Co.	—	140	140	—	—
United Nations Environment Programme	—	688	688	—	—
United Nations Educational, Scientific and Cultural Organization	—	52	52	—	—
United States Institute of Peace	—	41	41	—	—
War on Want	—	51	51	—	—
World Food Programme	—	84	84	—	—

Schedule 2.1 (continued)

Operating funds	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
Zero Emissions Forum Secretariat	—	207	207	—	—
Others	—	254	254	—	—
Subtotal	**—**	**3 613**	**3 613**	**—**	**—**
UNU headquarters total	**686**	**9 549**	**10 248**	**13**	**—**

Schedule 2.1 (continued)

United Nations University

Combined status of pledges unpaid as at 31 December 2005

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2004*	*Add pledges for 2004-2005 and adjustments*	*Less collection during 2004-2005*	*Add gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
UNU-WIDER					
Government donations					
Australia	—	77	77	—	—
Denmark	—	500	500	—	—
Finland	—	266	266	—	—
Norway	—	310	310	—	—
Sweden	—	718	718	—	—
United Kingdom of Great Britain and Northern Ireland	—	556	556	—	—
Subtotal	—	**2 427**	**2 427**	—	—
Public donations					
United Nations	—	10	10	—	—
Subtotal	—	**10**	**10**	—	—
UNU-WIDER total	—	**2 437**	**2 437**	—	—
UNU-INTECH					
Government donations					
Netherlands	—	2 902	2 902	—	—
Subtotal	—	**2 902**	**2 902**	—	—
Public donations					
Centro technique de cooperation agricole et rurale	—	93	93	—	—
Department for International Development	—	80	80	—	—
European Commission	—	299	299	—	—
HTPSE Ltd. UK	—	69	69	—	—
International Development Research Centre	—	123	123	—	—

Operating funds	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
The Open University	—	39	39	—	—
Others	—	78	78	—	—
Subtotal	—	**781**	**781**	—	—
UNU-INTECH total	—	**3 683**	**3 683**	—	—

Schedule 2.1 (continued)

United Nations University

Combined status of pledges unpaid as at 31 December 2005

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
UNU-IIST					
Government donations					
Macao	—	770	770	—	—
UNU-IIST total	**—**	**770**	**770**	**—**	**—**
UNU-INRA					
Public donations					
Others	—	35	35	—	—
UNU-INRA total	**—**	**35**	**35**	**—**	**—**
UNU-IAS					
Government donations					
Japan	1 459	7 565	9 052	28	—
Subtotal	**1 459**	**7 565**	**9 052**	**28**	**—**
Public donations					
Asia Pacific Network	—	28	28	—	—
Christensen Fund	—	162	162	—	—
Institute for Global Environmental Strategies (IGE)	—	113	113	—	—
Ishikawa Foundation for International Exchange	—	263	263	—	—
Rockefeller Foundation	—	390	390	—	—
United Nations Environment Programme	—	367	367	—	—
World Trade Organization	—	37	37	—	—
Others	—	147	147	—	—
Subtotal	**—**	**1 507**	**1 507**	**—**	**—**
UNU-IAS total	**1 459**	**9 072**	**10 559**	**28**	**—**

United Nations University

Combined status of pledges unpaid as at 31 December 2005

(Thousands of United States dollars)

Operating fund	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
UNU-ILI					
Government donations					
Jordan	—	1 500	1 500	—	—
Subtotal	**—**	**1 500**	**1 500**	**—**	**—**
Public donations					
Others	—	25	25	—	—
UNU-ILI total	**—**	**1 525**	**1 525**	**—**	**—**
UNU-INWEH					
Government donations					
Canada	382	1 772	2 145	(9)	—
Uganda	—	50	50	—	—
Subtotal	**382**	**1 822**	**2 195**	**(9)**	**—**
Public donations					
Arab Gulf Programme for United Nations Development Organizations (AGFUND)	—	110	110	—	—
Global Environment Facility	—	36	36	—	—
International Bank for Reconstruction and Development	—	77	77	—	—
Nakheel Corporation	—	40	40	—	—
United Nations Educational, Scientific and Cultural Organization	—	200	200	—	—
United Nations Headquarters	—	213	213	—	—

Schedule 2.1 (continued)

Operating fund	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
University of Queensland, Australia	—	379	379	—	—
Others	—	31	31	—	—
Subtotal	—	**1 086**	**1 086**	—	—
UNU-INWEH total	**382**	**2 908**	**3 281**	**(9)**	—
UNU-CRIS					
Government donations					
Belgium	—	336	163	—	173
UNU-CRIS total	—	**336**	**163**	—	**173**

United Nations University

Combined status of pledges unpaid as at 31 December 2005

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
UNU-EHS					
Government donations					
Germany	—	2 802	2 802	—	—
Subtotal	**—**	**2 802**	**2 802**	**—**	**—**
Public donations					
Deutsches Zentrum für Luft- und Raumfahrt	—	40	40	—	—
International Strategy for Disaster Reduction	—	324	324	—	—
University of Bonn	—	53	53	—	—
Subtotal	**—**	**417**	**417**	**—**	**—**
UNU-EHS total	**—**	**3 219**	**3 219**	**—**	**—**
Operating funds total	**2 527**	**33 534**	**35 920**	**32**	**173**

Endowment Fund	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
Government donations					
Germany	—	1 897	1 897	—	—
Ghana	2 907	—	833	—	2 074
Venezuela	3 003	—	—	—	3 003
Endowment Fund total	**5 910**	**1 897**	**2 730**	**—**	**5 077**

Schedule 2.1 (concluded)

Trust Fund	*Unpaid pledges as at 1 January 2004*	*Add: pledges for 2004-2005 and adjustments*	*Less: collection during 2004-2005*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2005*
UNU-FAP					
Government donations					
Japan	—	2 559	2 559	—	—
Trust Fund total	—	**2 559**	**2 559**	—	—
Grand total	**8 437**	**37 990**	**41 209**	**32**	**5 250**

United Nations University[a]

Statement of cash flows for the biennium ended 31 December 2005

(Thousands of United States dollars)

	UNU Centre Operating Fund[b]	*UNU-WIDER Operating Fund*	*UNU-INTECH Operating Fund*	*UNU-IIST Operating Fund*	*UNU-INRA Operating Fund*	*UNU-BIOLAC Operating Fund*	*UNU-IAS Operating Fund*
Cash flows from operating activities							
Net excess (shortfall) of income over expenditure (statement I)	(23 615)	(4 316)	(1 773)	(3 716)	(1 438)	(842)	(933)
(Increase) decrease in contributions receivable	686	—	—	—	—	—	1 459
(Increase) decrease in other accounts receivable	(362)	(3)	(39)	(67)	(9)	7	(8)
(Increase) decrease in inter-office transactions pending processing	(1 359)	1 064	(670)	1 130	224	6	(1 029)
(Increase) decrease in deferred charges and other assets	33	4	6	(11)	—	—	(10)
(Increase) decrease in inter-fund balances receivable	(127)	3 590	1 809	1 258	785	1 698	—
Increase (decrease) in unliquidated obligations	(599)	99	(171)	(3)	(3)	(141)	34
Increase (decrease) in accounts payable	(1 197)	(26)	6	19	28	3	88
Increase (decrease) in other liabilities	(285)	—	—	—	—	—	—
Increase (decrease) in inter-fund balances payable	4 902	—	—	—	—	—	—
Less: interest income	(811)	(123)	(75)	(24)	(5)	—	—
Net cash flows from operating activities	**(22 734)**	**289**	**(907)**	**(1 414)**	**(418)**	**731**	**(399)**
Cash flows from investing activities							
(Increase) decrease in short-term investments	—	—	—	—	—	—	—
(Increase) decrease in long-term investments	—	—	—	—	—	—	—
(Increase) decrease in cash pool	12 138	2 985	433	(24)	(5)	—	—
Plus: interest income	811	123	75	24	5	—	—
Net cash flows from investing activities	**12 949**	**3 108**	**508**	—	—	—	—
Cash flows from financing activities							
Savings on, or cancellation of, prior period obligations	1 468	167	—	232	71	151	399
Transfers to (from) other funds	7 732	(2 677)	(350)	1 584	347	(882)	—
Net cash flows from financing activities	**9 200**	**(2 510)**	**(350)**	**1 816**	**418**	**(731)**	**399**
Net increase (decrease) in cash and term deposits	**(585)**	**887**	**(749)**	**402**	—	—	—
Cash and term deposits, beginning of period	6 367	1 429	1 280	860	—	—	—
Cash and term deposits, end of period	**5 782**	**2 316**	**531**	**1 262**	—	—	—

Statement III (continued)

United Nations University[a]

Statement of cash flows for the biennium ended 31 December 2005

(Thousands of United States dollars)

	UNU-IIT Operating Fund	*UNU-INWEH Operating Fund*	*UNU-CRIS Operating Fund*	*UNU-EHS Operating Fund*	*UNU-IAF Operating Fund*	*UNU-ICDF Operating Fund*	*UNU-RCE Operating Fund*
Cash flows from operating activities							
Net excess (shortfall) of income over expenditure (statement I)	48	(260)	1	213	(54)	(27)	—
(Increase) decrease in contributions receivable	—	382	(173)	—	—	—	—
(Increase) decrease in other accounts receivable	(24)	(205)	(1)	(33)	—	—	—
(Increase) decrease in inter-office transactions pending processing	(345)	(40)	180	1 349	—	—	—
(Increase) decrease in deferred charges and other assets	—	—	—	—	—	—	—
(Increase) decrease in inter-fund balances receivable	(38)				(1 946)	(973)	(2 500)
Increase (decrease) in unliquidated obligations	28	158	(14)	384	—	—	—
Increase (decrease) in accounts payable	2	(59)	—	7	—	—	—
Increase (decrease) in other liabilities	—	—	—	—	—	—	—
Increase (decrease) in inter-fund balances payable	—	—	—	—	—	—	—
Less: interest income	(38)	(20)	—	—	—	—	—
Net cash flows from operating activities	**(367)**	**(44)**	**(7)**	**1 920**	**(2 000)**	**(1 000)**	**(2 500)**
Cash flows from investing activities							
(Increase) decrease in short-term investments	—	—	—	—	—	—	—
(Increase) decrease in long-term investments	—	—	—	—	—	—	—
(Increase) decrease in cash pool	—	—	—	—	—	—	—
Plus: interest income	38	20	—	—	—	—	—
Net cash flows from investing activities	**38**	**20**	—	—	—	—	—

	UNU-ILI Operating Fund	UNU-INWEH Operating Fund	UNU-CRIS Operating Fund	UNU-EHS Operating Fund	UNU-IAS Operating Fund	UNU-ICDF Operating Fund	UNU-IFCF Operating Fund
Cash flows from financing activities							
Savings on, or cancellation of, prior period obligations	14	45	7	—	—	—	—
Transfers to (from) other funds	148	—	—	—	2 000	1 000	2 500
Net cash flows from financing activities	**162**	**45**	**7**	**—**	**2 000**	**1 000**	**2 500**
Net increase (decrease) in cash and term deposits	**(167)**	**21**	**—**	**1 920**	**—**	**—**	**—**
Cash and term deposits, beginning of period	152	791	—	—	—	—	—
Cash and term deposits, end of period	**(15)**	**812**	**—**	**1 920**	**—**	**—**	**—**

Statement III (continued)

United Nations University[1]

Statement of cash flows for the biennium ended 31 December 2005

(Thousands of United States dollars)

	Operating funds[2]	*Endowment Fund*	*Trust Fund*	*All funds eliminations*	*Total, 2005*	*Total, 2003*
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (statement I)	(36 712)	28 724	42	—	(7 946)	9 450
(Increase) decrease in contributions receivable	2 354	833	—	—	3 187	(1 184)
(Increase) decrease in other accounts receivable	(744)	(704)	(331)	—	(1 779)	591
(Increase) decrease in inter-office transactions pending processing	510	—	(510)	—	—	106
(Increase) decrease in deferred charges and other assets	22	—	—	—	22	(154)
(Increase) decrease in inter-fund balances receivable	3 556	(4 250)	—	(694)	—	4 025
Increase (decrease) in unliquidated obligations	(228)	—	455	—	227	(586)
Increase (decrease) in accounts payable	(1 129)	—	634	—	(495)	(8)
Increase (decrease) in other liabilities	(285)	—	—	—	(285)	260
Increase (decrease) in inter-fund balances payable	4 902	(4 208)	—	694	—	(4 025)
Less: interest income	(1 096)	(30 622)	—	—	(31 718)	(4 964)
Net cash flows from operating activities	**(28 850)**	**(10 277)**	**290**	**—**	**(38 787)**	**3 511**
Cash flows from investing activities						
(Increase) decrease in short-term investments	—	2 138	—	—	2 138	(8 702)
(Increase) decrease in long-term investments	—	(8 012)	—	—	(8 012)	(3 190)
(Increase) decrease in cash pool	15 527	—	—	—	15 527	(6 497)
Plus: interest income	1 096	30 622	—	—	31 718	4 964
Net cash flows from investing activities	**16 623**	**24 748**	**—**	**—**	**41 371**	**(13 425)**
Cash flows from financing activities						
Savings on, or cancellation of, prior period obligations	2 554	—	—	—	2 554	3 354
Transfers to (from) other funds	11 402	(11 402)	—	—	—	—
Net cash flows from financing activities	**13 956**	**(11 402)**	**—**	**—**	**2 554**	**3 354**
Net increase (decrease) in cash and term deposits	**1 729**	**3 119**	**290**	**—**	**5 138**	**(6 560)**

	Operating funds[b]	*Endowment Fund*	*Trust Fund*[b]	*All funds eliminations*	*Total, 2005*	*Total, 2003*
Cash and term deposits, beginning of period	10 879	5 315	2	—	16 196	22 756
Cash and term deposits, end of period	**12 608**	**8 434**	**292**	**—**	**21 334**	**16 196**

Abbreviations: UNU-BIOLAC, Programme for Biotechnology in Latin America and the Caribbean; UNU-CRIS, Programme on Comparative Regional Integration Studies; UNU-EHS, Institute for Environment and Human Security; UNU-IAS, Institute of Advanced Studies; UNU-ICDF, Innovative Capacity Development Fund; UNU-IIST, International Institute for Software Technology; UNU-ILI, International Leadership Institute; UNU-INRA, Institute for National Resources in Africa; UNU-INTECH, Institute for New Technologies; UNU-INWEH, International Network on Water, Environment and Health; UNU-JAF, Joint Activities Fund; UNU-RCF, Revolving Cash Fund; and UNU-WIDER, World Institute for Development Economics Research.

[a] See notes 2, 3 and 4.

[b] The Trust Fund for the Financial Assistance Programme (UNU-FAP) was previously included in the UNU Centre Operating Fund. Effective 1 January 2004, UNU-FAP is shown separately as a trust fund.

The accompanying notes are an integral part of the financial statements.

Statement IV

United Nations University

Statement of appropriations for the biennium ended 31 December 2005

(Thousands of United States dollars)

Appropriation sections	*Appropriations*[a]	*Expenditures*			*Unencumbered balance*
		Disbursements	*Unliquidated obligations*	*Total expenditures*	
UNU Centre					
Personnel costs	18 124	17 450	502	17 952	172
General expenses	2 746	3 002	260	3 262	(516)
Research and training networks, and dissemination	14 477	8 603	2 175	10 778	3 699
Headquarters building	5 788	4 902	358	5 260	528
Subtotal	**41 135**	**33 957**	**3 295**	**37 252**	**3 883**
UNU-WIDER					
Personnel costs	2 937	3 540	3	3 543	(606)
General expenses	800	529	46	575	225
Research and training networks, and dissemination	4 130	2 199	591	2 790	1 340
Subtotal	**7 867**	**6 268**	**640**	**6 908**	**959**
UNU-INTECH					
Personnel costs	3 228	3 386	1	3 387	(159)
General expenses	633	660	11	671	(38)
Research and training networks, and dissemination	2 648	1 499	178	1 677	971
Subtotal	**6 509**	**5 545**	**190**	**5 735**	**774**
UNU-IIST					
Personnel costs	2 540	2 348	12	2 360	180
General expenses	524	427	104	531	(7)
Research and training networks, and dissemination	2 006	1 355	285	1 640	366
Subtotal	**5 070**	**4 130**	**401**	**4 531**	**539**

Appropriation section	Appropriations[a]	Expenditures: Disbursements	Expenditures: Unliquidated obligations	Expenditures: Total expenditures	Unencumbered balance
UNU-INRA					
Personnel costs	803	962	25	987	(184)
General expenses	231	151	16	167	64
Research and training networks, and dissemination	446	243	81	324	122
Subtotal	**1 480**	**1 356**	**122**	**1 478**	**2**
UNU-BIOLAC					
Personnel costs	—	—	—	—	—
General expenses	—	—	—	—	—
Research and training networks, and dissemination	945	788	54	842	103
Subtotal	**945**	**788**	**54**	**842**	**103**
UNU-IAS					
Personnel costs	2 311	2 312	35	2 347	(36)
General expenses	2 322	2 269	49	2 318	4
Research and training networks, and dissemination	6 153	4 468	956	5 424	729
Subtotal	**10 786**	**9 049**	**1 040**	**10 089**	**697**
UNU-ILI					
Personnel costs	1 186	812	104	916	270
General expenses	296	199	28	227	69
Research and training networks, and dissemination	690	356	16	372	318
Subtotal	**2 172**	**1 367**	**148**	**1 515**	**657**
UNU-INWEH					
Personnel costs	678	754	0	754	(76)
General expenses	220	222	46	268	(48)
Research and training networks, and dissemination	3 049	1 898	320	2 218	831
Subtotal	**3 947**	**2 874**	**366**	**3 240**	**707**

Statement IV (concluded)

Appropriation sections	*Appropriations*[a]	*Expenditures*			*Unencumbered balance*
		Disbursements	*Unliquidated obligations*	*Total expenditures*	
UNU-CRIS					
Personnel costs	249	330	—	330	(81)
General expenses	—	2	3	5	(5)
Research and training networks, and dissemination	187	—	—	—	187
Subtotal	**436**	**332**	**3**	**335**	**101**
UNU-EHS					
Personnel costs	1 208	1 059	183	1 242	(34)
General expenses	613	688	47	735	(122)
Research and training networks, and dissemination	1 191	876	154	1 030	161
Subtotal	**3 012**	**2 623**	**384**	**3 007**	**5**
Joint Activity Fund	2 000	54	—	54	1 946
Innovative Capacity Development Fund	1 000	27	—	27	973
Grand total	**86 359**	**68 370**	**6 643**	**75 013**	**11 346**

[a] As approved by the UNU Council and authorized spending against income received from contributions for specific programmes.

Notes to the financial statements

Note 1
The United Nations University and its activities

(a) The Charter of the United Nations University (UNU) was adopted by the General Assembly in resolution 3081 (XXVIII) of 6 December 1973.

(b) The mission of UNU, a non-traditional international educational institution, is to carry out scholarly work of the highest quality to help resolve pressing global problems of human survival, development and welfare. To this end, UNU focuses its research, postgraduate education and knowledge dissemination activities on the most critical problems of concern to the United Nations, in particular as they affect developing countries.

(c) Through its work, UNU strives to achieve two main goals: to strengthen the capacities of institutions of higher education in developing countries to carry out high-quality research and training, and to make scholarly and policy-relevant contributions to the work of the United Nations.

(d) To accomplish these objectives, the UNU Centre in Tokyo plans, coordinates and funds academic activities carried out through the programme units located in Tokyo and through 14 research and training centres and programmes: the World Institute for Development Economics Research (UNU-WIDER) in Helsinki; the Institute for New Technologies (UNU-INTECH) in Maastricht, the Netherlands; the International Institute for Software Technology (UNU-IIST) in Macao, China; the Institute for Natural Resources in Africa (UNU-INRA) in Accra; the Programme for Biotechnology in Latin America and the Caribbean (UNU-BIOLAC) in Caracas; the Institute of Advanced Studies (UNU-IAS) in Yokohama, Japan; the International Leadership Institute (UNU-ILI) in Amman; the International Network on Water, Environment and Health (UNU-INWEH) in Hamilton, Ontario, Canada; the Programme on Comparative Regional Integration Studies (UNU-CRIS) in Bruges, Belgium; the Programme on Environment and Human Security (UNU-EHS) in Bonn, Germany; the Joint Activity Fund (UNU-JAF) in Tokyo; the Innovative Capacity Development Fund (UNU-ICDF) in Tokyo; the Revolving Cash Fund (UNU-RCF) in Tokyo; and the Financial Assistance Programme (UNU-FAP) in Tokyo.

Note 2
Summary of significant accounting policies

(a) The accounts of UNU are maintained in accordance with the Financial Regulations and Rules of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations, and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the former Administrative Committee on Coordination, which has since been replaced by the United Nations System Chief Executives Board for Coordination (CEB). United Nations University follows international accounting standard 1 in regard to the disclosure of accounting policies, as modified and adopted by CEB, as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The UNU accounts are maintained on a "fund accounting" basis. Separate funds for general or special purposes may be established by the General Assembly or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of UNU is a biennium and consists of two consecutive calendar years.

(d) In general, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of UNU are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the Controller. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements provides a valuation materially different from the application of United Nations rates of exchange as at the end of the financial period, a footnote will be presented quantifying the difference.

(f) The financial statements of UNU are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The statement of cash flows is based on the "indirect method" of cash flows, as referred to in the United Nations system accounting standards.

(h) The financial statements of UNU are presented in accordance with the ongoing recommendations of the Working Party on Accounting Standards of CEB.

(i) Income:

(i) The University derives its income from two sources — income from the Endowment Fund and contributions to the operating funds and the Trust Fund;

(ii) Pledged voluntary contributions from Governments to the Endowment Fund are recorded as income on the basis of a written commitment by a prospective donor to pay a monetary contribution at a specified time. Pledges for future years are recorded as deferred income;

(iii) All government contributions, unless otherwise specified, are credited to the Endowment Fund. The income derived from the investments of the Endowment Fund is allocated to financing the entities of the University, in accordance with the ratio of contributions to the Endowment Fund from the respective donors;

(iv) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on short-term and long-term investments and investment income earned in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pool are allocated to participating funds;

(v) Income for services rendered represents services provided to the United Nations and other organizations which occupy offices in the UNU building and from external users of the conference and exhibition facilities;

(vi) Miscellaneous income includes income from the sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified and other sundry income.

(j) Expenditure:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget for the period in which it is acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges, as referred to in subparagraph (k) (vi) below.

(k) Assets:

(i) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) Investments comprise investments in bonds and equities. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost. No provision is made for amortization of premiums or discounts, which are taken into account as part of the gain or loss when investments are sold;

(iii) The cash pool comprises the participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, which are managed in the cash pool for United Nations offices away from Headquarters. The investments in the cash pool comprise money market instruments and fixed-income marketable securities. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost; cost is defined as the nominal value plus or minus any unamortized premium or discount. Share in the cash pool is reported separately for each of the participating fund and its composition and the market value of its investments are disclosed in the footnotes to the financial statements;

(iv) Inter-fund balances reflect transactions between the operating funds and the Endowment Fund. Inter-fund balances are settled periodically, depending upon the availability of cash resources;

(v) Inter-office transactions pending processing reflect transactions between the UNU Centre and its research and training centres and programmes;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead-times are required for delivery;

(vii) For purposes of the balance sheet statements only, those portions of the education grant advances that are assumed to pertain to the scholastic year completed as at the date of the financial statement are shown under deferred charges. The full amounts of the advances are maintained as accounts receivables from staff members until the required proof of entitlement is produced, at which time the budgetary accounts are charged and the advances settled;

(viii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the University. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements.

(l) Liabilities and reserves and fund balances:

(i) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(ii) Deferred income includes pledged contributions for future periods;

(iii) Commitments of UNU relating to prior, current and future financial periods are shown as unliquidated obligations. Current period obligations related to the operating funds, the Endowment Fund and the Trust Fund remain valid for 12 months following the end of the biennium to which they relate;

(iv) Transfers from other funds represent actual fund transfers from the Endowment Fund to the respective operating funds;

(v) The Endowment Fund of UNU represents its working capital funds;

(vi) Authorized retained surplus represents the amounts set aside, as contingency funds approved by the UNU Council, to cover any shortfall or delay in the payment of expected contributions, to compensate for any reduction in estimated income due to currency fluctuations and to cover any special maintenance costs for the headquarters building;

(vii) Balances related to projects funded by donors represent the amount of specific programme contributions unspent during the period;

(viii) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(ix) The University is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, defined benefit plan. The financial obligation of UNU to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, together with its share of any actuarial deficiency payments under article 26 of the regulations of the Fund. Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following the determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. As at the date of the current financial statement, the General Assembly has not invoked this provision.

(m) Trust funds may be established by the Rector. The University follows the general provisions of the Secretary-General's bulletin ST/SGB/188, on the establishment and management of trust funds, and its supporting administrative instructions ST/AI/284, ST/AI/285 and ST/AI/286, although as indicated in paragraph 3 of ST/SGB/188, that bulletin does not apply to institutions such as UNU, which are subject to the administrative authority of their executive heads.

Note 3

Income and expenditure and changes in reserves and fund balances (statement I), assets, liabilities and reserves and fund balances (statement II) and cash flows (statement III)

Statements I, II and III contain financial results for all UNU funds, which are totalled into three groups of related funds and, after elimination, combined into a grand total that reflects the activities of the University. This combined presentation should not be interpreted to mean that any individual fund can be used for any purpose other than that for which it is authorized. The three groups consist of:

(i) "Operating funds", which comprise UNU Centre, UNU-WIDER, UNU-INTECH, UNU-IIST, UNU-INRA, UNU-BIOLAC, UNU-IAS, UNU-ILI, UNU-INWEH, UNU-CRIS, UNU-EHS, UNU-JAF, UNU-ICDF and UNU-RCF;

(ii) "Endowment Fund";

(iii) "Trust Fund for the Financial Assistance Programme for Students from Developing Countries Studying in Japan".

Note 4
United Nations University funds (statements I, II and III)

(a) *Investments*. In accordance with the decisions of the UNU Council, the investment policies are:

(i) To adopt 5 per cent of the five-year average endowment market value as the maximum endowment spending level annually;

(ii) To invest 40 to 50 per cent in fixed income, 45 to 55 per cent in equity and 5 per cent in cash;

(iii) To use a rolling five-year asset base forecast and target a percentage of total assets as the budget for transfers to fund operations;

(iv) To focus on total return instead of income or capital gains: by definition, a well-diversified portfolio will protect the principal.

(b) *Cash and term deposits, investments and cash pool*. The following tables show the breakdown of the total of the cash and term deposits, short-term and long-term investments and cash pool included in statement II, by currency and type of investment (in thousands of United States dollars):

Currency	*United States dollar equivalent*
United States dollars	118 010
Euros	80 410
Japanese yen	55 114
British pounds	21 743
Others	22 520
Total	**297 797**

Type of investment			*United States dollar equivalent*[a]
Cash and term deposits			21 334
Short-term investments:	Bonds		6 564
Long-term investments:	Bonds	124 918	
	Equities	131 605	256 523
Cash pool			13 376
Total			**297 797**

[a] The market values as at 31 December 2005 were $6,563,932 for short-term investments and $287,589,007 for long-term investments. As indicated in footnote f to statement II (assets, liabilities, reserves and fund balances as at 31 December 2005), the market value of short-term investments in the cash pool was $4,626,735.

(c) *Voluntary contributions receivable*. The following table is an aged analysis of the pledged contributions unpaid and included in statement II for 2005 and 2003 (in thousands of United States dollars):

Country	*Less than one year*	*More than one year*	*Total, 2005*	*Total, 2003*
Belgium	173	—	173	—
Canada	—	—	—	382
Ghana	—	2 074	2 074	2 907
Japan	—	—	—	2 145
Venezuela	—	3 003	3 003	3 003
Total	**173**	**5 077**	**5 250**	**8 437**

(d) *Other accounts receivable*. The following table is an aged analysis of other accounts receivable and included in statement II for 2005 and 2003 (in thousands of United States dollars):

Other accounts receivable	*Less than one year*	*More than one year*	*Total, 2005*	*Total, 2003*
Governments	224	—	224	3
Staff members	401	47	448	628
Vendors	114	63	177	42
Other United Nations entities	89	9	98	14
Specialized agencies	452	7	459	51
Accrued interest	2 670	—	2 670	1 966
Others	358	120	478	72
Total	**4 308**	**246**	**4 554**	**2776**

(e) *Deferred charges and other assets*. The following table is an analysis of deferred charges and other assets, as shown and included in statement II for 2005 and 2003 (in thousands of United States dollars):

Deferred charges and other assets	*2005*	*2003*
Education grant advances	143	63
Others	87	188
Total	**230**	**251**

(f) *Other accounts payable*. The following table is an analysis of other accounts payable and included in statement II for 2005 and 2003 (in thousands of United States dollars):

Other accounts payable	2005	2003
Due to other United Nations entities	395	1 442
Others	796	244
Total	**1 191**	**1 686**

[a] Comparative figures have been restated to conform to the current presentation.

(g) *Reserves and fund balances.* The following table shows the composition of total reserves and fund balances as at 31 December 2005 and 2003 (in thousands of United States dollars):

Reserves and fund balances	2005	2003
Excess (shortfall) of income over expenditure	(7 946)	9 450
Savings on, or cancellation of, prior period obligations	2 554	3 354
Subtotal	**(5 392)**	**12 804**
Reserves and fund balances, beginning of period	304 934	292 130
Reserves and fund balances, end of period	**299 542**	**304 934**

Note 5
Non-expendable property

(a) In accordance with UNU accounting policies, non-expendable property is not included in the fixed assets of UNU but is charged against the current appropriations when acquired. The following table shows the non-expendable property at the UNU Centre and the UNU research and training centres and programmes, according to the cumulative records of UNU (in thousands of United States dollars):

Location	2005	2003
UNU Centre, Tokyo	2 647	2 500
UNU Office at the United Nations, New York	100	100
UNU-UNESCO, Paris	49	44
UNU-WIDER, Helsinki	570	552
UNU-INTECH, Maastricht, Netherlands	371	320
UNU-IIST, Macao, China	420	582
UNU-INRA, Accra	146	100
UNU-INRA Unit, Lusaka	144	142
UNU-IAS, Yokohama, Japan	800	813
UNU-BIOLAC, Caracas	15	11
UNU-ILI, Amman	42	31

Location	*2005*	*2004*
UNU-INWEH, Hamilton, Ontario, Canada	127	116
UNU-EHS, Bonn, Germany	256	—
Total	**5 487**	**5 171**

(b) A summary of the change in non-expendable property is as follows (in thousands of United States dollars):

	2005
Opening balance as at 1 January 2004	5 171
Add: acquisitions	1 192
Less: write-offs (accidents, thefts and damages)	—
Less: dispositions and adjustments	(875)
Balance as at 31 December 2005	**5 488**

In addition to the above-listed inventory records, furniture and equipment for the UNU Centre and the research and training centres and programmes have been made available by the respective host countries and certain private donors. Separate inventory records are maintained for such furniture and equipment and donated items.

Note 6

***Liabilities for* end-of-service and post-retirement benefits**

(a) The University has not specifically recognized, in any of its financial accounts, liabilities for after-service health insurance (ASHI) costs or the liabilities for other types of end-of-service payments, which will be owed when staff members leave the University. Such costs are budgeted for in the UNU Centre Operating Fund, and actual payments made in each financial period are reported as current expenditure.

(b) Based on established practice, in order to gain a better understanding of the financial dimensions of the University's liabilities for after-service health insurance, a consulting actuary was engaged to carry out an actuarial valuation of post-retirement health insurance benefits. It was estimated that the University's liability as at 31 December 2005 for after-service health insurance benefits covering all participants, regardless of funding source, is as follows (in thousands of United States dollars):

After-service health insurance liability	*Present value of future benefits*	*Accrued liability*
Gross liability	7 295	4 589
Offset from retiree contributions	(1 646)	(963)
Net liability	**5 649**	**3 626**

(c) The present value of the future benefits figures shown above are the discounted values of all benefits to be paid in the future to all current retirees and active employees expected to retire. The accrued liabilities represent those portions of the present values of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Benefits of active staff members are fully accrued on the date on which they become fully eligible for benefits.

(d) Staff members who separate from the University are entitled to be paid for any unused vacation days that they may have accrued, up to a maximum limit of 60 days. The University's total liability for such unpaid accrued vacation compensation as at 31 December 2005 is estimated to be $1.3 million.

(e) Some staff members are entitled to repatriation grants and related expenditures of relocation upon leaving the University, based on the number of years of service. The University's total liability for such unpaid repatriation and relocation entitlements as at 31 December 2005 is estimated to be $1 million.

06-41378 (E) 280806